

International Workshop: Resource Politics in Asia and Latin America

Resource Politics in post-Soeharto Indonesia:

The complex interaction between global,
national and local actors

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Timber boom in the 1970s



Palm oil boom since the 2000s

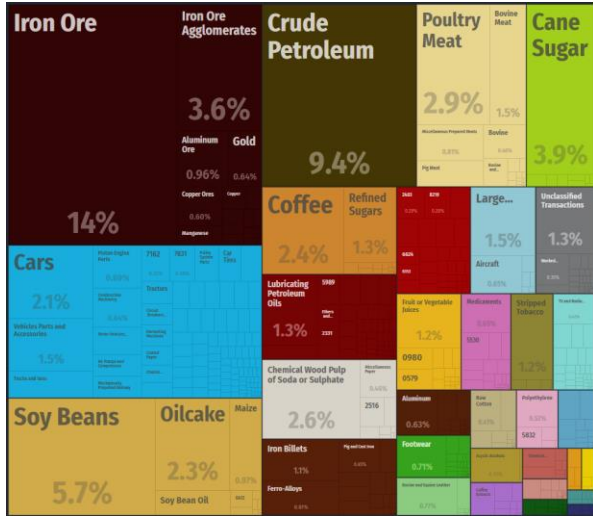


Coal boom since the 2000s

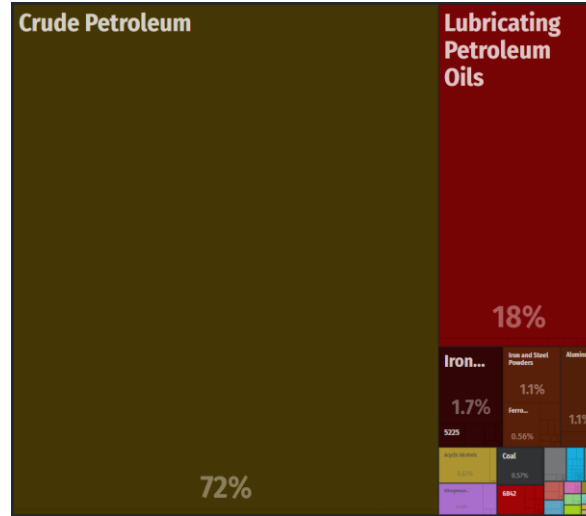


Comparison: Export Products in Asia and Latin America in 2010

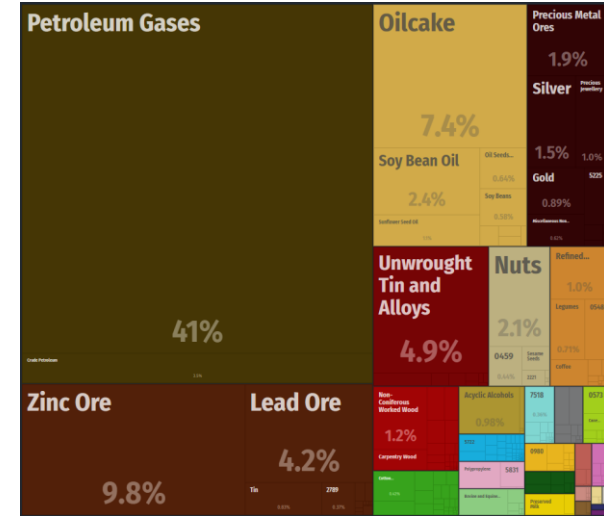
Brazil (total: \$201B)



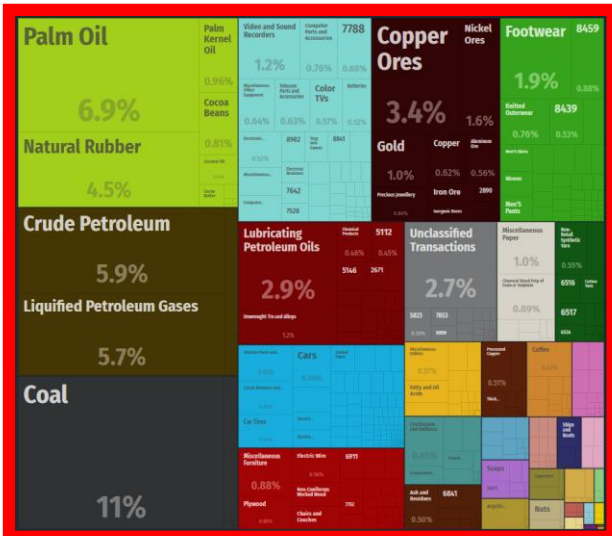
Venezuela (total: \$55.5B)



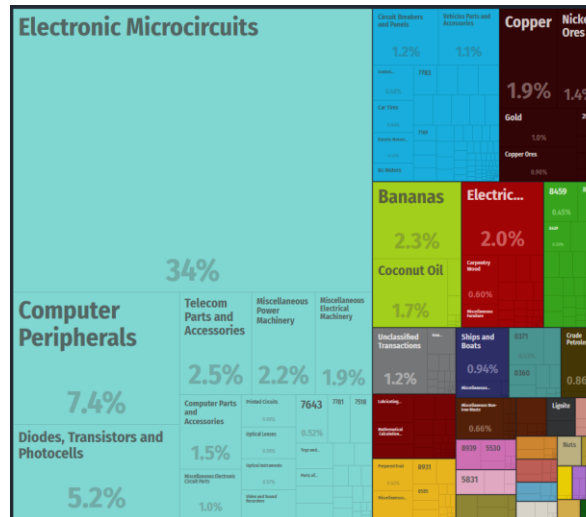
Bolivia (total: \$5.42B)



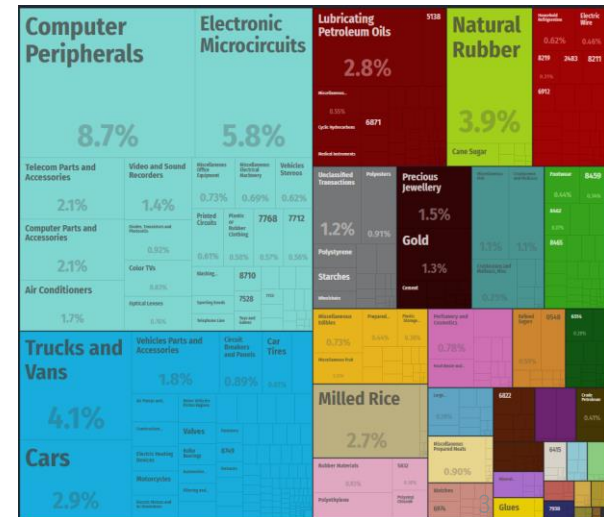
Indonesia (total: \$158B)



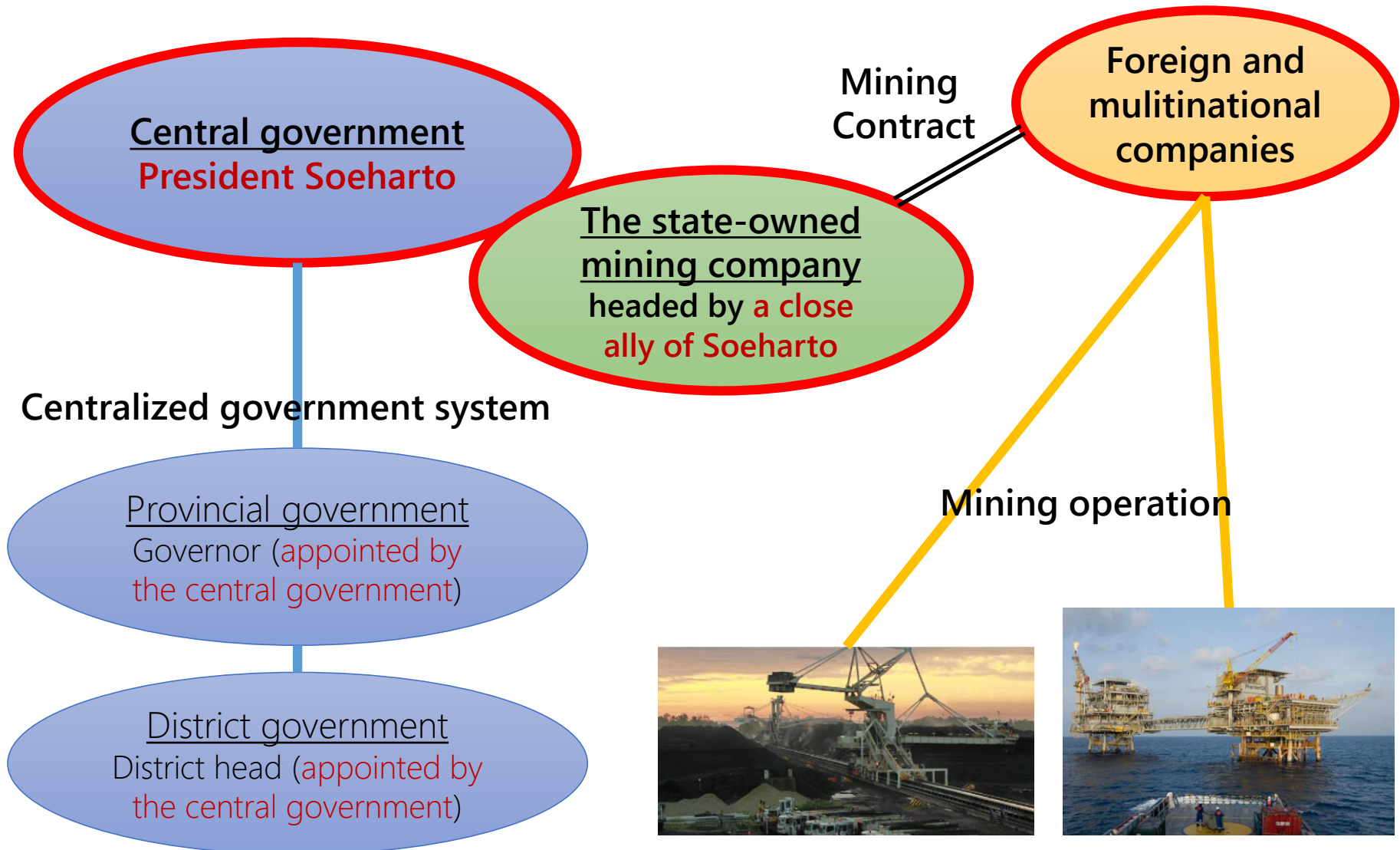
The Philippines (total: \$64.4B)



Thailand (total: \$187B)

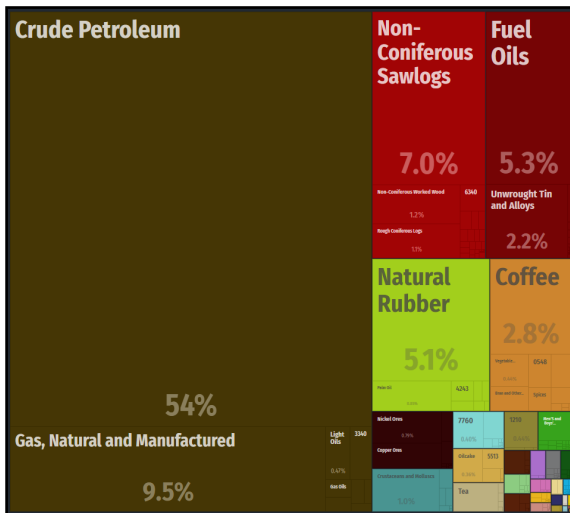


Relations among global, national, and local actors in the mining sector during the Soeharto era (1967-1998)

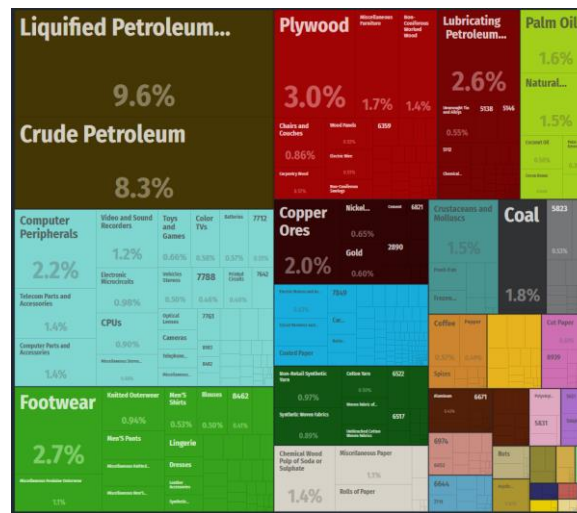


The Shift in Export Products of Indonesia

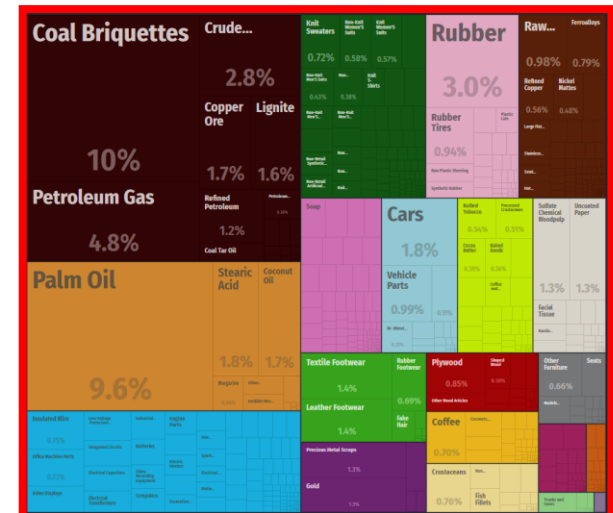
1980 (total: \$25.4B)



2000 (total: \$65.1B)



2017 (total: \$189B)



The top export of Indonesia in 1980:

Crude Petroleum

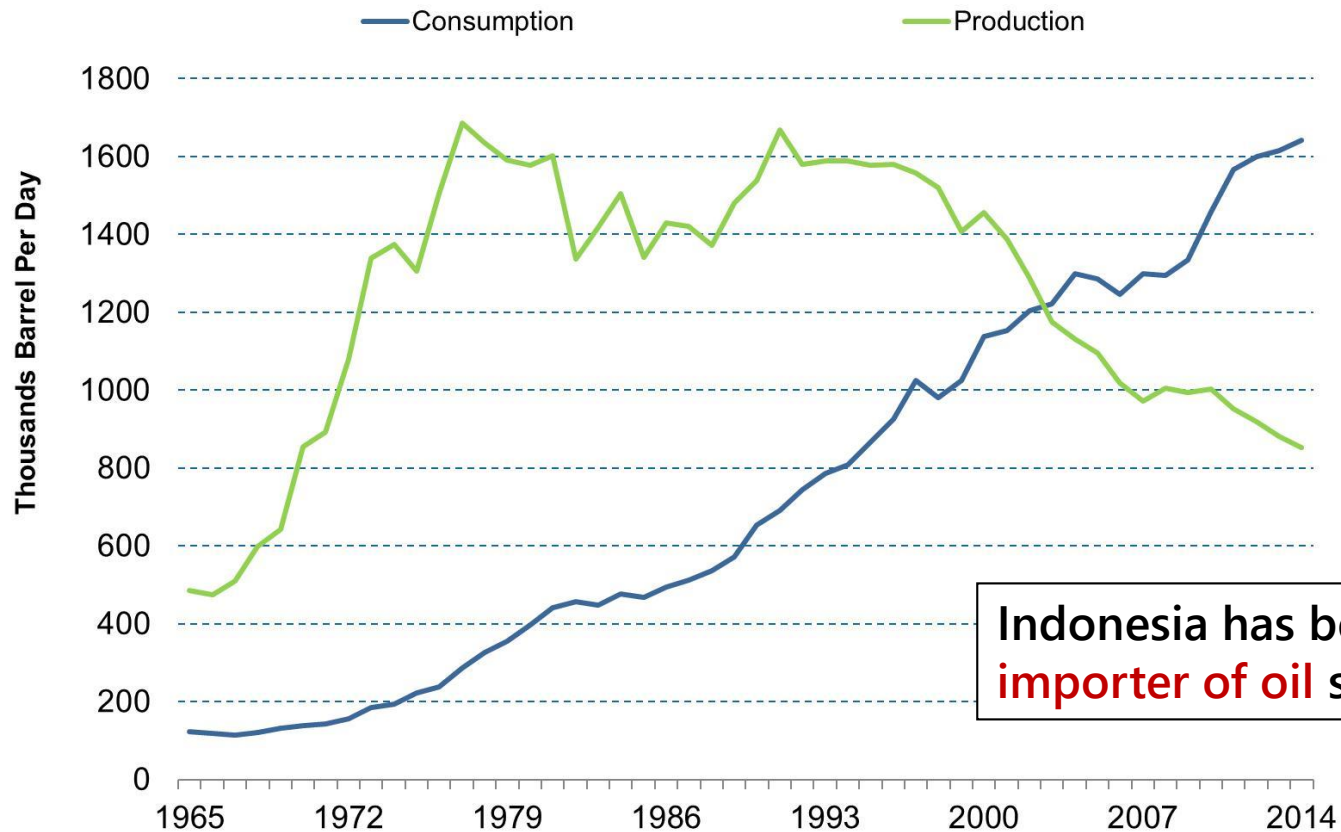


The top exports of Indonesia in 2017:

Coal Briquettes
Palm Oil
Petroleum Gas

Indonesia's oil production has substantially declined in the last two decade.

Indonesia's Oil Consumption And Production Statistics



Indonesia has been a net importer of oil since 2003.

Political and Economic Development **under the Soeharto's authoritative development state (1967-1998)**

The 1960s-

- The emergence and development of **technocracy**
 - Academic technocrats and career bureaucrats who obtained technical expertise by doing graduate work abroad
- The government promoted **foreign and domestic investments** and **the development of Indonesian entrepreneurs**

The 1980s-

- **The fall in oil prices in the early 1980s**
- The failures of import substitution
 - The government promoted **export oriented industries** and also adopted **a market-friendly approach to the mining industry.**
- The government supported a small number of large entrepreneurs close to Soeharto.
 - **These conglomerates dominated non-oil industry sectors** in Indonesia.

Political and Economic Development **since the 1990s**

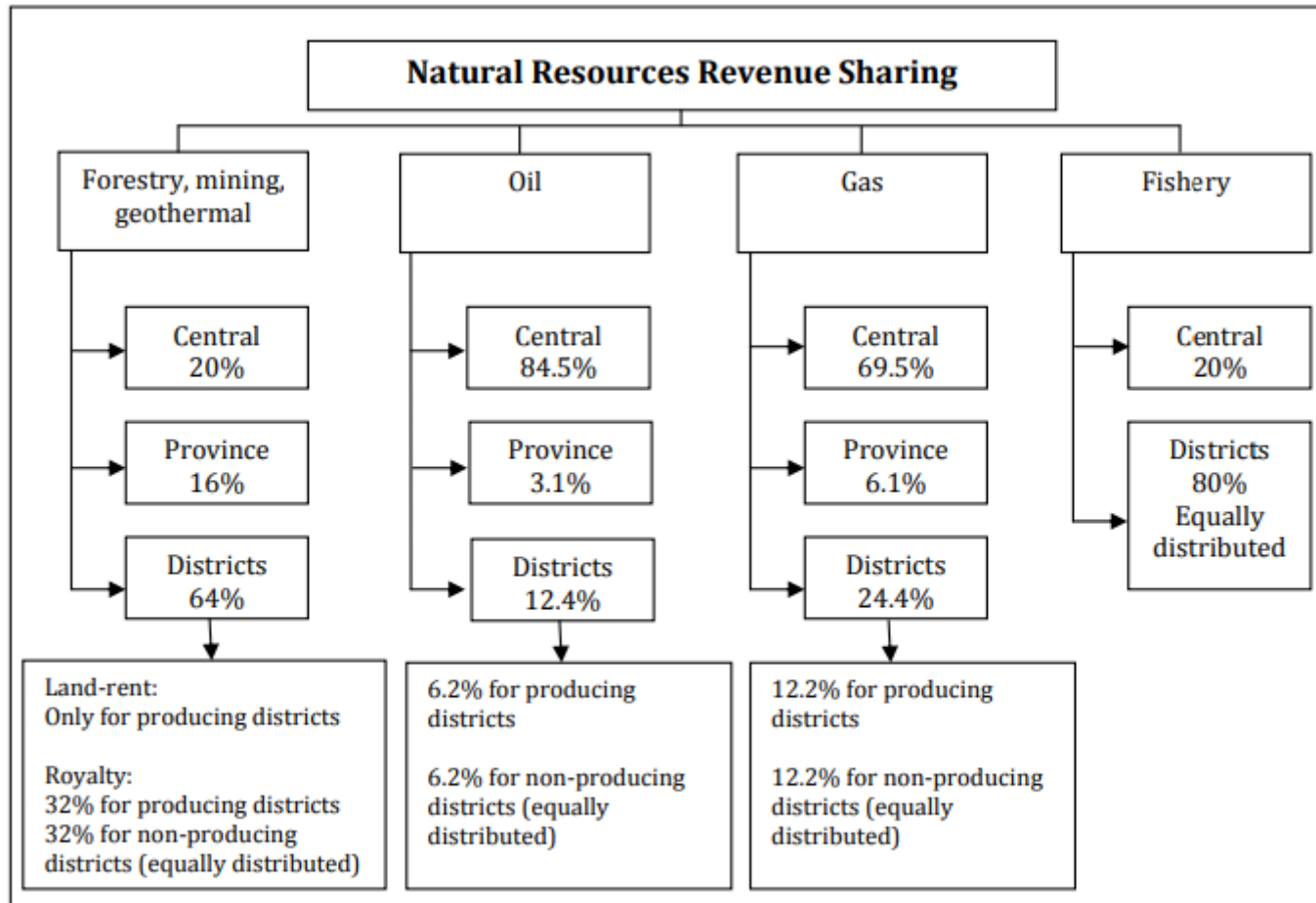
- **The growth of the private sector** and *pribumi* business, particularly small and medium-scale enterprises
- The 1998 economic, social, and political crisis
- The fall of Soeharto in 1998

→ Democratization and Decentralization

- ◆ **Free and fair election, Intra and inter-party conflicts**
- ◆ **The legislature and local governments** also became important political players in Indonesia
- ◆ **Natural resources revenue sharing** based on Law 25/1999 and Law 33/2004

Natural Resources Revenue Sharing Arrangement

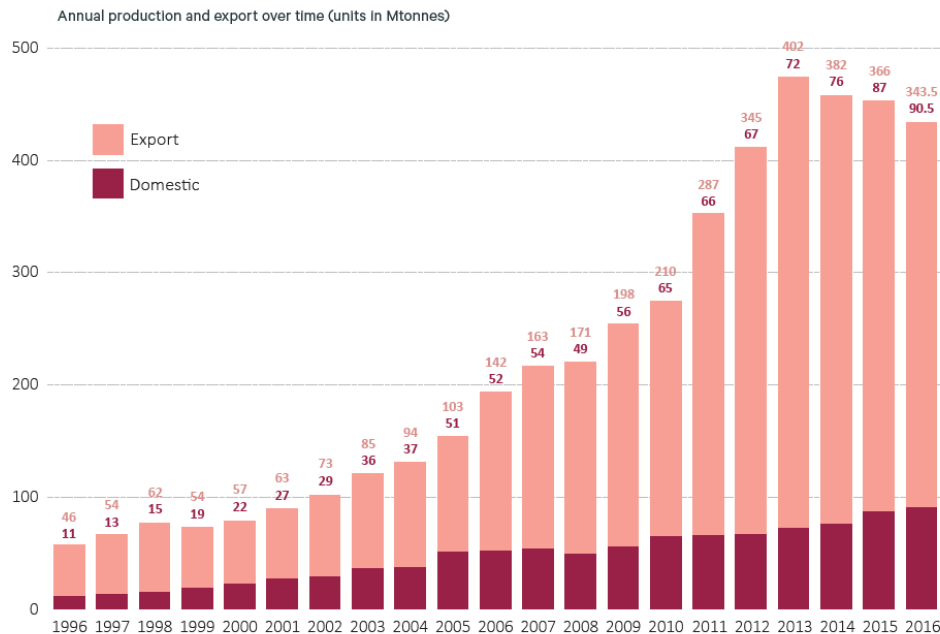
based on Law 33/2004 on fiscal balance
between central and local governments



Source: UU33/2004

The effect of the 2000s global commodity boom in Indonesia

*Indonesia's economy is riding the recent wave of high global commodity prices as it feeds China, India and Japan with **coal**, **palm oil** and **natural gas**.* –The Wall Street Journal, March 24, 2008



Data sources: Data for 1996 to 2004 comes from Osman 2013; Data from 2005 to 2016 comes from Report on Performance of Directorate General of Mineral and Coal (2015-2016) (MEMR 2017) (adapted from Figure 1 in PWYP Indonesia 2017)

Coal production has risen dramatically over the last 10 to 15 years.

Indonesia has emerged as one of **the world's largest exporters of coal**.

Politics over Mineral Resources at the national level

Three Policies affected the mining sector during the 2000s commodity boom

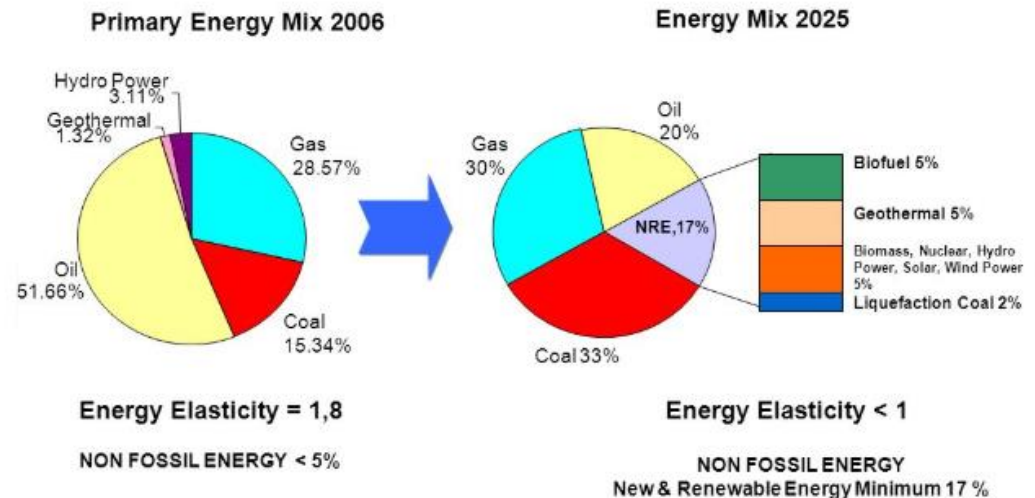
- **Energy Mix Policy**
- **Resource Nationalism**
- **MP3EI**
Master Plan for the Acceleration and Expansion of Indonesia's Economic Development

Energy Mix Policy

- National Energy Policy 2003-2020
(No.0983K/16/MEM/2004)
- Blueprint of National Energy Management 2005-2025

- National Energy Policy (Presidential Regulation No.5/2006)

TARGET OF ENERGY MIX (Presidential Regulation No. 5 of 2006)



Resource Nationalism

The 2009 Mining Law and its regulations

- **Divestment requirements for foreign companies**

According to the 2010 regulation, foreign companies must divest **20 percent** of their business to Indonesian partners after five years of production.

The new 2012 regulation mandated that foreign companies must divest the majority of their assets, **51 percent**, to Indonesian partners by the tenth year of production.

- **Restrictions on the export of unprocessed raw minerals**

The aim was to **develop a downstream mineral processing industry** producing higher-value mineral products, and move Indonesia up the global value chain.

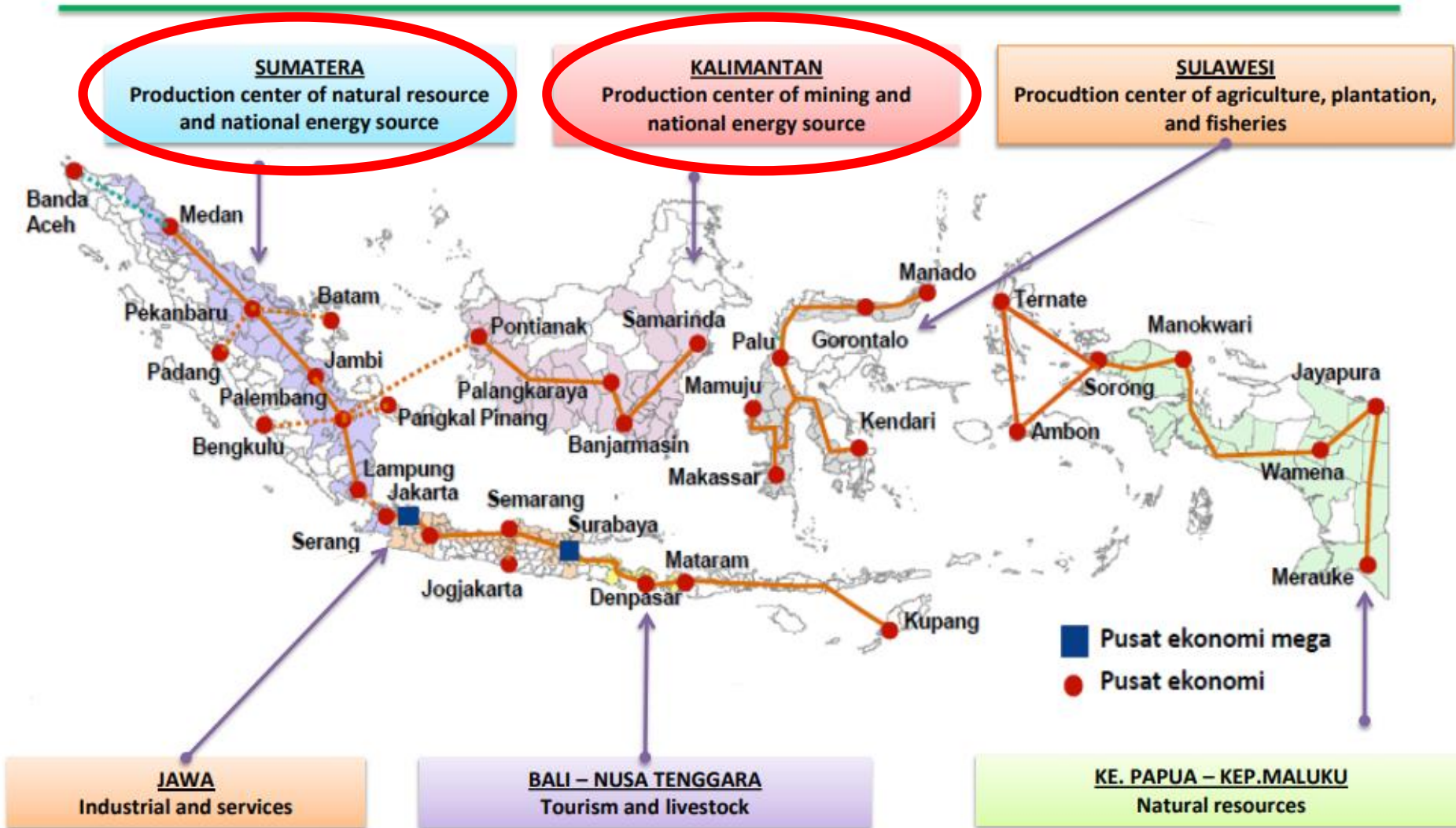
- **Increases in taxes and royalties**

MP3EI (Master Plan for the Acceleration and Expansion of Indonesia's Economic Development)

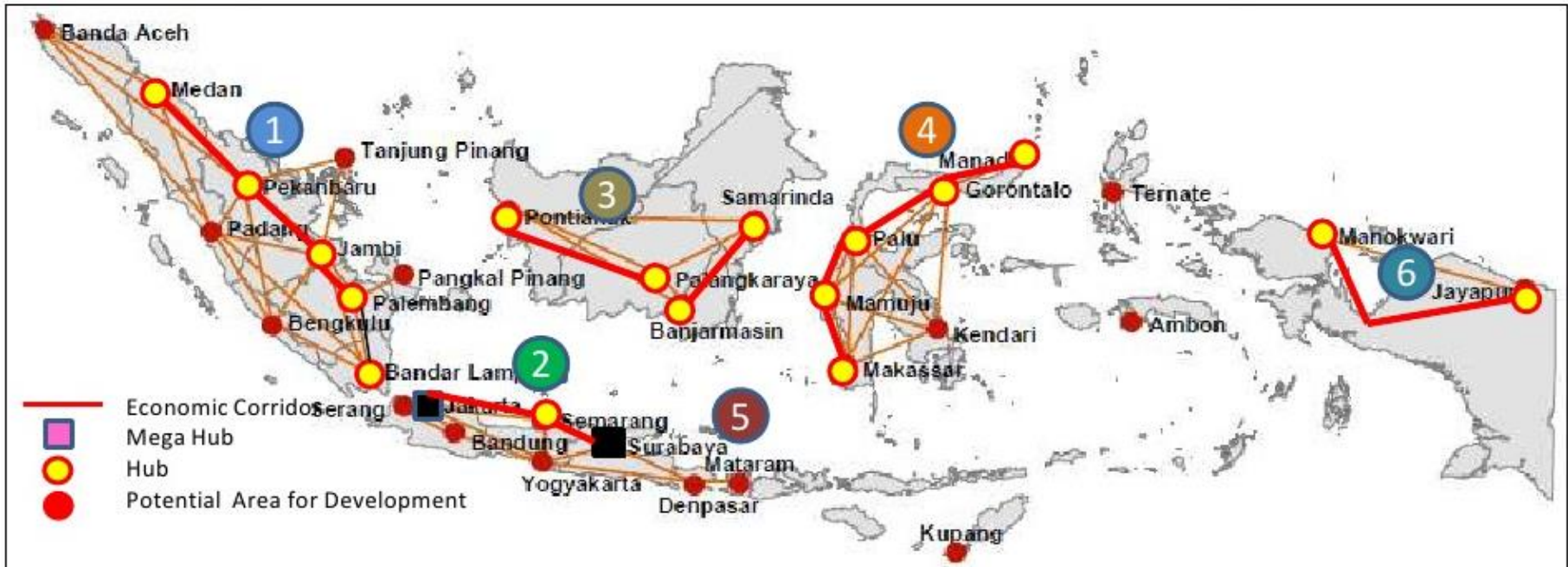
- The MP3EI was created by the Susilo Bambang Yudhoyono administration (2004-2014) and unveiled in **2011**.
- The intention is to enable Indonesia to become one of the 10 major world economies by 2025 by **accelerating the country's economic transformation**.
- Three Pillars
 1. Developing economic potential through **economic corridors**
 2. Strengthening national **connectivity**
 3. Strengthening human resources capability and science & technology

MP3EI: Six regional economic corridors to boost economic development

ECONOMIC DEVELOPMENT IN 6 CORRIDORS BY THEIR POTENTIALS



MP3EI and Infrastructure Initiative: 12,000 km National Arterial Roads



The Recommended Six (6) Economic Corridors :

- | | | | |
|---|----------------------------------|---|-------------------|
| 1 | Eastern Sumatera-North West Java | 4 | Western Sulawesi |
| 2 | Northern Java | 5 | East Java-Bali-NT |
| 3 | Kalimantan | 6 | Papua |

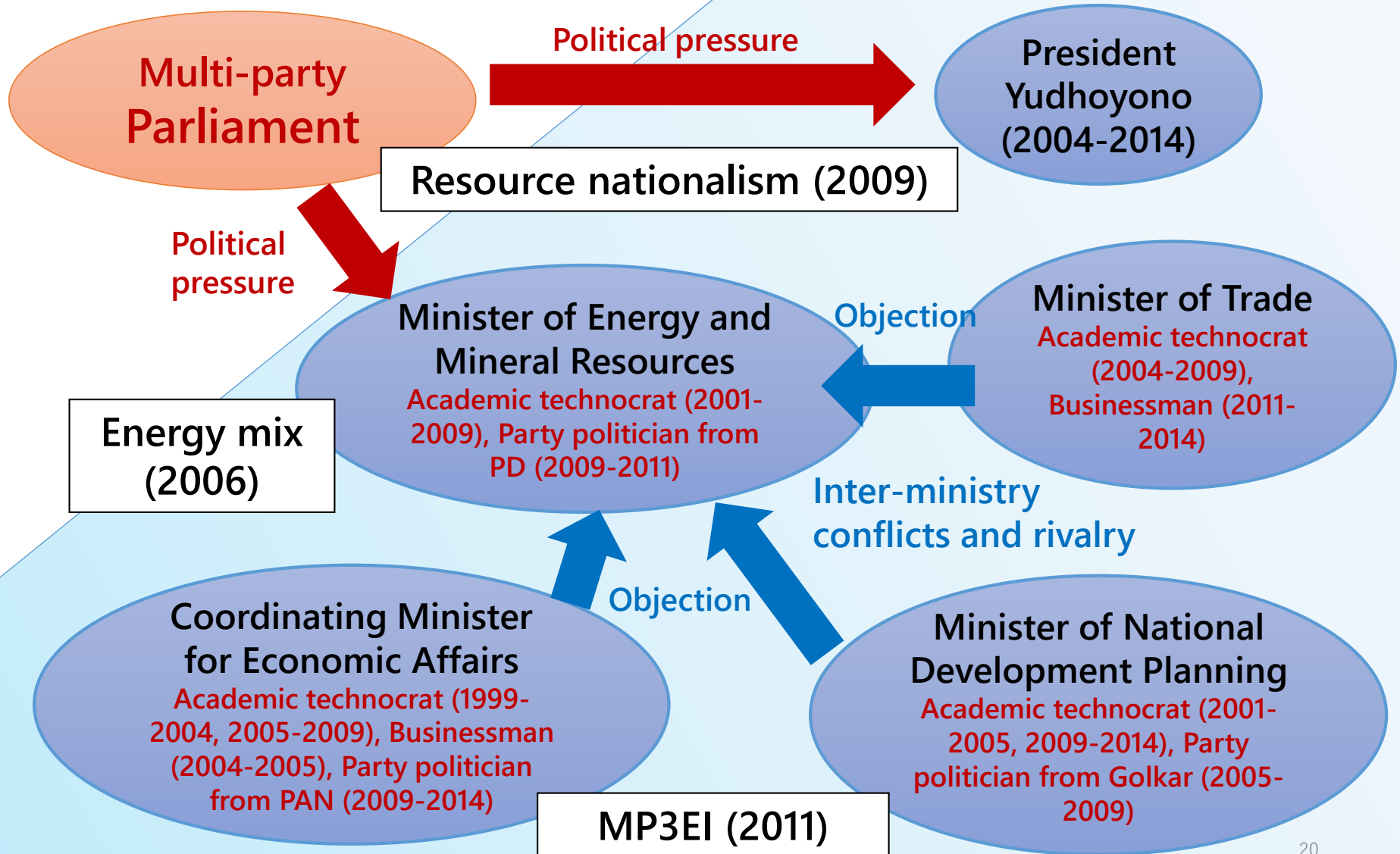
Logistics is part of the supply chain (supply chain):

1. procurement activities
2. storage
3. delivery / **transportation** and service

Actors and Factors in the policy-making process

Policy	Actors and Factors
Energy Mix Policy	<ul style="list-style-type: none">• Ministry of Energy and Mineral Resources (MoEMR)• The need to conserve the limited fossil fuel source and reduce domestic dependency on imported fuel
Resource Nationalism	<ul style="list-style-type: none">• Parliamentarians, particularly those from the then opposition party, Indonesian Democratic Party–Struggle (PDIP), pressured MoEMR to accept the proposal that foreign companies should undertake more divestment.• Other Ministries (e.g. Minister of Trade) and both domestic and foreign companies opposed the divestment obligation.
MP3EI	<ul style="list-style-type: none">• Coordinating Ministry for Economic Affairs and Ministry of National Development Planning• MP3EI directive is aimed at implementing the Long-term National Development Plan of 2005-2025.

Relations among national actors during the 2000s commodity boom



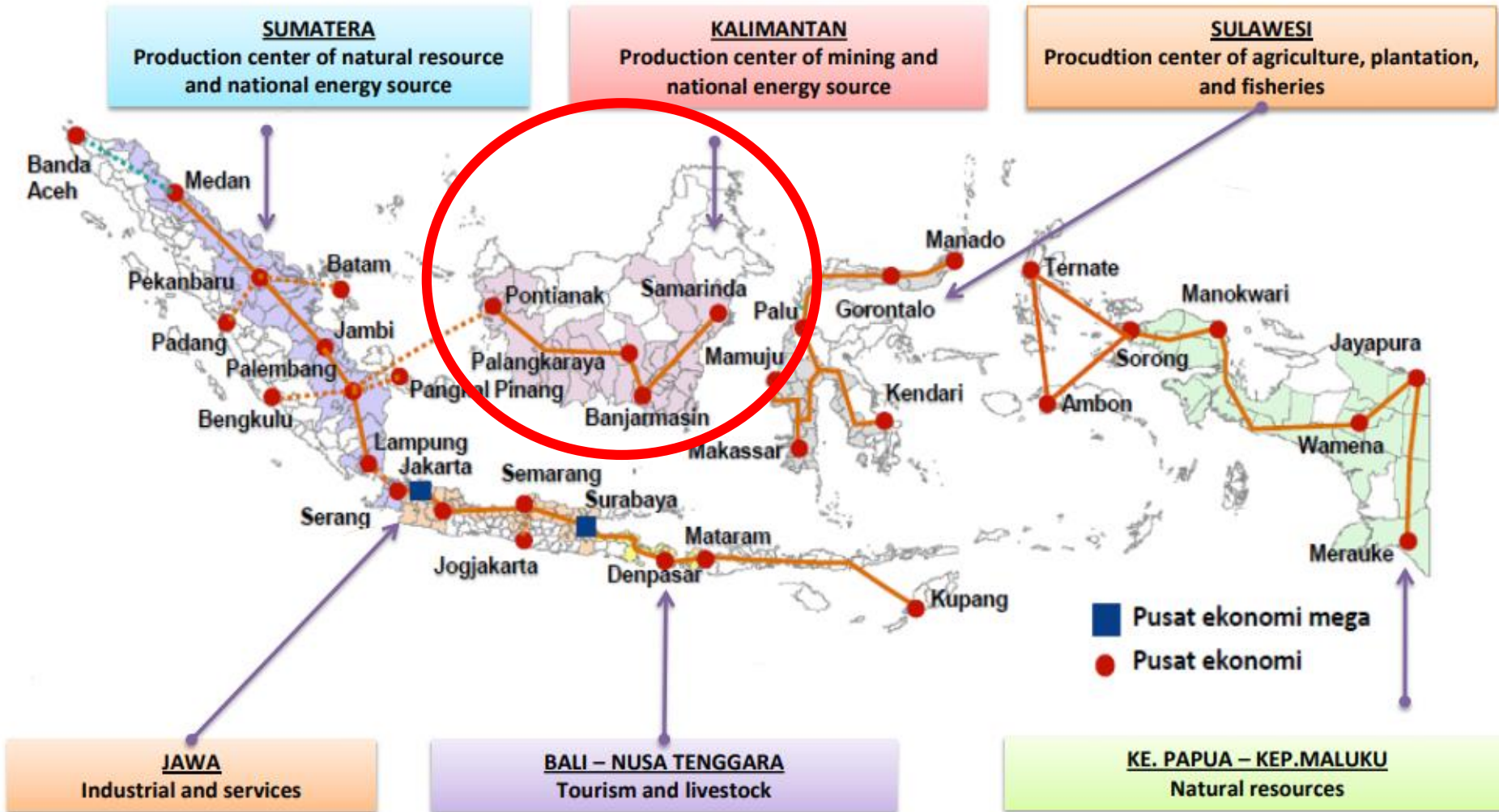
Politics over Resources at the local level

Background: **Decentralization** in mining and infrastructure sectors

- Government Regulation No.75/2001 and the new Mining Law (Law No.4/2009) gave local governments **the right to issue mining licenses.**
 - The new Investment Law (Law No.25/2007) gave local governments **the right to issue investment licenses.**
 - The new Railway Law (Law No.23/2007) opened the door for the local governments and private companies to **engage in railway construction and operations.**
- **Decentralization enabled local governments to enter into the mining and infrastructure sectors.**

Focus on Kalimantan

ECONOMIC DEVELOPMENT IN 6 CORRIDORS BY THEIR POTENTIALS



Case Study (1): Dispute over **the divestment of Kaltim Prima Coal (KPC) 1998-2003**

The 1982 Coal Agreement required the multinational company to divest 51% of the shares to Indonesian investors over 5 years, starting in 1996.

Local political actor

- **Suwarna, Governor of East Kalimantan**, who intended to purchase all 51% of KPC's equity
- **Awang Faroek Ishak, District head of East Kutai**, where KPC is located

VS

Global actor

KPC shareholders (Rio Tinto of Australia And BP International of the UK)

National political actor

- **Purnomo, Minister of Energy**, who doubted financial ability of Suwarna
- **Aburizal Bakri, party politician** (Golkar) who is a prominent businessman

Business actor

- An Indonesian mining company, which **Aburizal Bakri** controlled 2% of shares
- **International lenders** of Singapore and Australia that provided a loan to finance the purchase

National political actor

- **Moetojib, Former commander** of Tanjungpura territory of Kalimantan
- **Laksamana Sukardi, Minister of State Owned Enterprises**

Business actor

David Salim, Nephew of prominent Indonesian **tycoon**

Case Study (2): Competition over coal transportation

Central Kalimantan Provincial Government

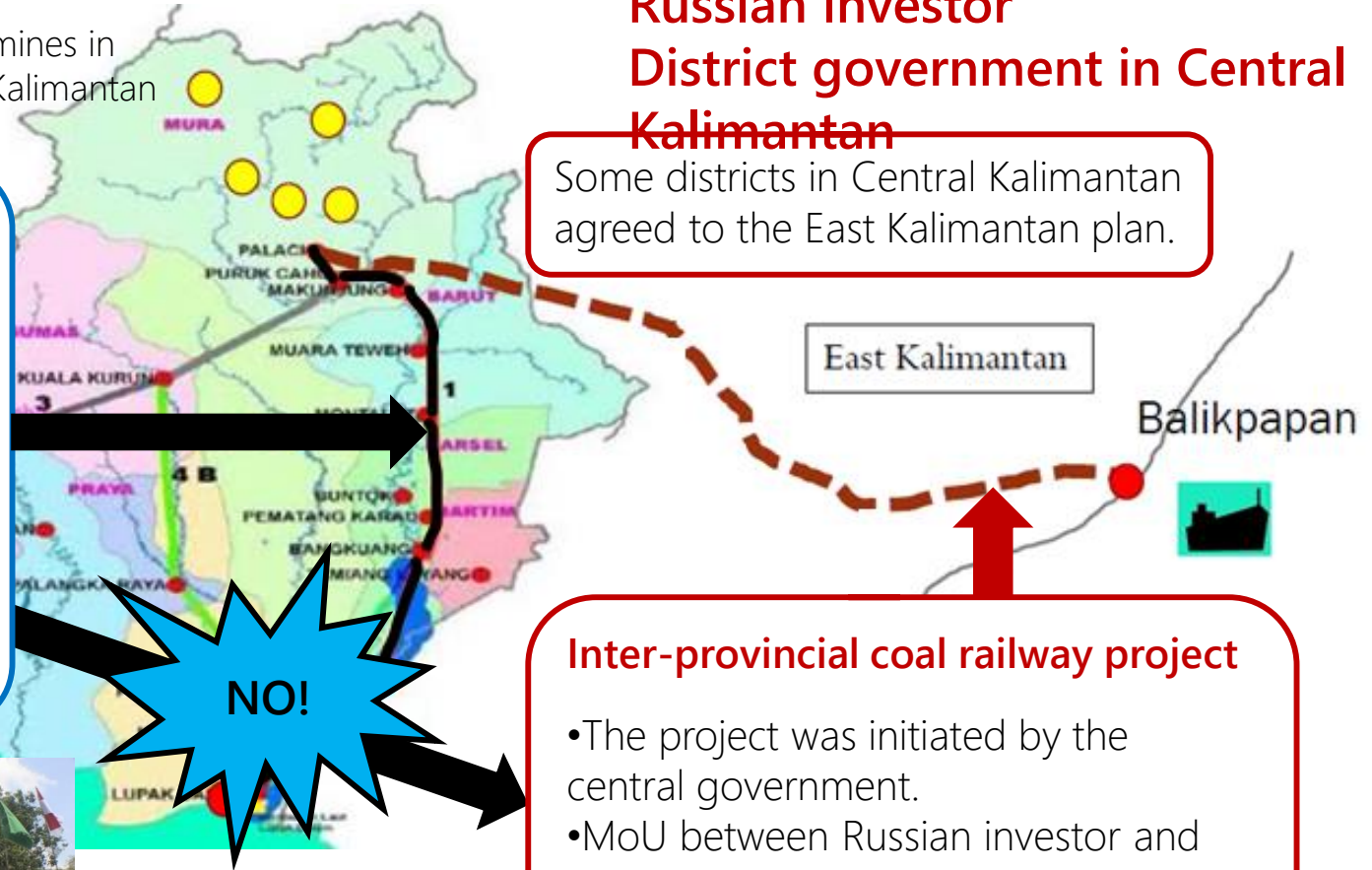
VS

Central Government
East Kalimantan Province
Russian investor
District government in Central Kalimantan

Coal mines in Central Kalimantan

Central Kalimantan's railway project

The provincial government signed MoU with China Overseas Engineering Group in **2007**.

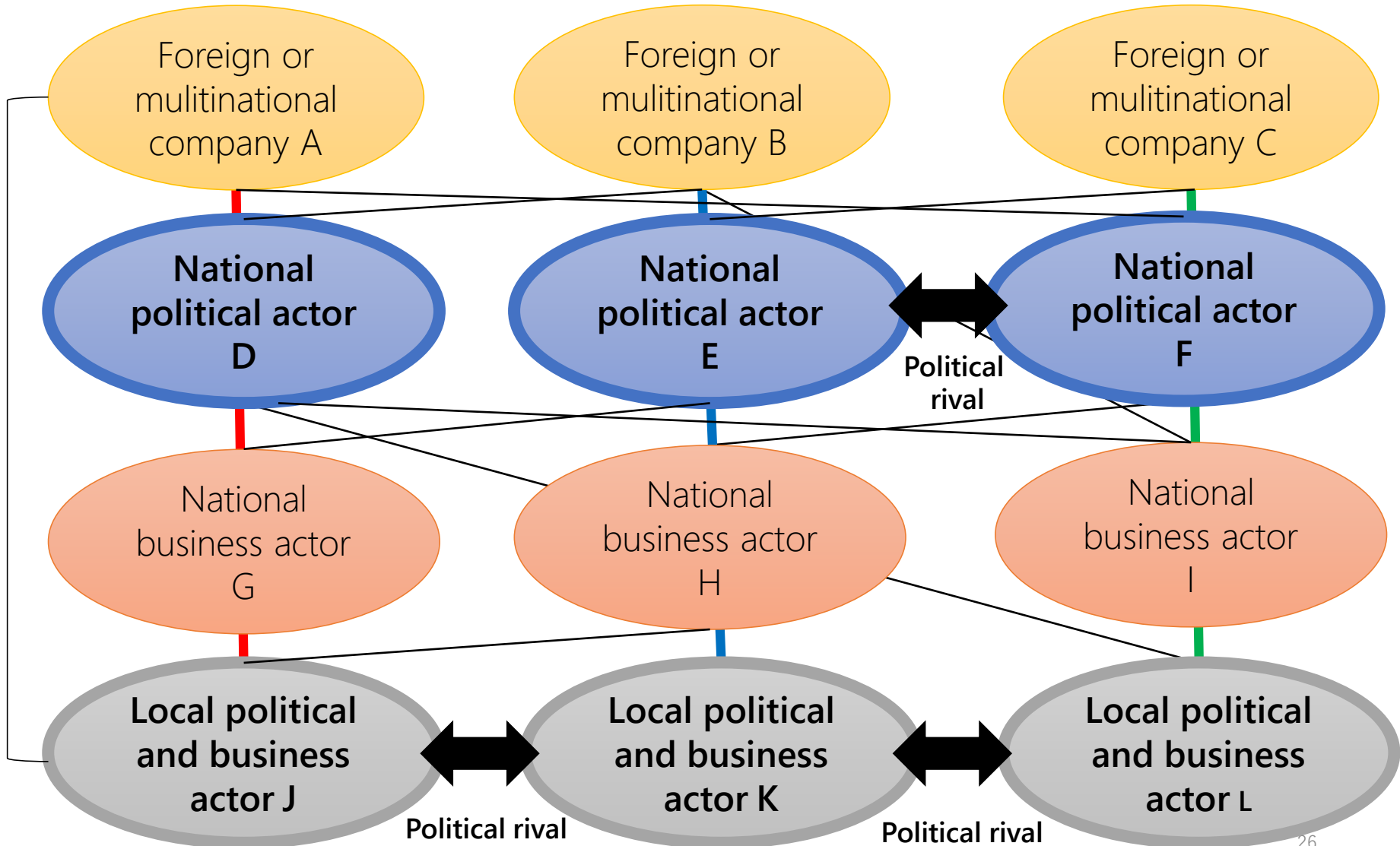


Some districts in Central Kalimantan agreed to the East Kalimantan plan.

Inter-provincial coal railway project

- The project was initiated by the central government.
- MoU between Russian investor and the East Kalimantan provincial government was signed in **2012**.

Relations among global, national, and local actors in coal and coal-related industries after decentralization



Resource Politics in decentralized Indonesia during the 2000s commodity boom

- The rise of oil and coal prices **increased the demand for Indonesian coal** globally and domestically.
- **National and local political actors have competed with each other** over coal and coal-related infrastructure industries to secure their position politically and financially.
- In the resource competition, political actors form **national-local coalitions by using their own political and business networks.**
- Foreign and multinational companies have to keep their eye open for complicated power relations in Indonesia and who can protect their business interests in each deal.

What remains an issue

- **Voices of local residents**
- **Environmental destruction caused by the development of coal industry and coal railway construction projects**



What factors affect Indonesian resource politics and state trajectory?

Factors affecting domestic demands for energy resources

- Population and domestic economic growth

Factors affecting natural resource policies and politics

- The growth of technocracy
- The growth of private sector and Indonesian entrepreneurs
- Political regime (democratization and decentralization)

Factors affecting the role of global actors in Indonesian resource politics

- Legal and economic environment for foreign direct investment
- International relations (esp. with super powers)
- International organizations and media